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SUBJECT: PERU RESPONSE: U.S. INTERNATIONAL TRADE COMMISSION ANDEAN  
INVESTMENT AND DRUG CROP SURVEY FOR REPORT ON ATPA

REF: STATE 00059051

¶1. (U) This cable provides a response to the request for information from the U.S. International Trade Commission Andean Investment and Drug Crop Survey for a report on the ATPA.

¶2. (U) The United States is Peru's top trading partner for both exports and imports. The growing importance to the Peruvian economy of exports to the U.S. market is reflected by their nearly eightfold increase from ATPA's enactment in 1991 through 2007. Peru's exports to the U.S. have more than tripled since ATPDEA was implemented in ¶2002. Exports under ATPA/ATPDEA have assumed an increasingly important role in Peru's economy, as exporters have discovered that the ATPA/ATPDEA offers greater advantages than those offered under the GSP. Of the \$5.3 billion of goods exported to the United States in 2007 and \$5.9 billion of goods that Peru exported to the United States in 2006, just over half entered the United States under ATPA/ATPDEA.

#### FOREIGN DIRECT INVESTMENT ACTIVITY IN 2006 AND 2007

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¶3. (U) The stock of foreign direct investment (FDI) in Peru according to Peruvian government number is approximately \$24.7 billion at the end of 2007. The United States represents the number two top investor in Peru, after Spain, at nearly \$3 billion. The top sectors receiving FDI are telecomm (23%), mining (20%), manufacturing industry (18%), financial (16%), and electricity (10%).

#### Uncertainty of ATPA/ATPDEA Extension Resulted in Losses

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¶4. (U) Overall U.S. investment in Peru during 2006 and 2007 does not appear to have been significantly affected by possible expiration of the ATPDEA. Most current American investment in Peru is in areas, such as extractive industries (mining, oil and gas) or production for the local consumer market, is not significantly impacted by the ATPDEA. Likewise, the interim between Congressional approval and entry into force of the PTPA appears not to have had a discernible impact on corporate thinking with regard to the Peruvian market, the period having evidenced continued strong U.S. company interest in Peru.

¶5. (U) In the textile industry, uncertainty regarding the extension of the ATPDEA in 2006 and 2007 resulted in some loss of US business

for Peruvian textile companies and hesitancy by the Peruvian banking industry to issue investment loans. In 2006, the Minister of Trade and Tourism mentioned that the growth rate of textile exports to the U.S. had been cut in half in the last quarter and that potential investments were on hold or had gone elsewhere due to the uncertainty.

#### Impact of the end of global textile and apparel quotas

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¶6. (U) Peruvian textile and apparel firms have voiced concern regarding the possible impact of the expiration, at the end of 2008, of the November 2005 U.S.-China agreement on textile imports into the United States. Some Peruvian industry representatives have suggested that unrestricted imports from China could present a major challenge to the Peruvian industry's ability to maintain its share of the United States market. These concerns are not universal, with other Peruvian apparel makers confident that they can compete against Chinese firms.

#### Domestic Programs that Support Investment and Exports

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¶7. (U) Proinversion is the national entity devoted to foreign investment in Peru. It is in charge of proposing and executing national policy on foreign investment, centralizing promotion activities carried out by public entities, providing advisory services to investors, and registering foreign direct investment flows.

¶8. (U) Sierra Exportadora Program, a Peruvian presidential initiative, encourages production of exported commodities by small scale producers in the mountains. In 2006, the Peruvian legislature approved President Alan Garca's Sierra Exportadora initiative to cultivate an additional two thousand hectares of niche market crops in the Andean highlands. The plan is to allocate \$102 million over the next five years for infrastructural investments in the Andean provinces. An additional \$4.5 million, under the "Integral Plan of Repairs," promises to improve the quality of public health in some of Peru's poorest regions. The expansion of roads and construction of airports, in conjunction with improvements to be made in the public health sector, should boost the area's productivity.

#### Investments in Non-Traditional Export-Oriented Products

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¶9. (U) Under original ATPA benefits, four products (copper, asparagus, jewelry and zinc) of the roughly 5,500 covered items represented more than 90 percent of the value of ATPA exports from Peru. In 2007, the United States imported copper valued at \$1,012 million and asparagus valued at \$198 million (Peruvian government figures). In 2006, the United States imported copper valued at \$965 million and asparagus valued at \$149 million (Peruvian government figures). Under the ATPA/ATPDEA, large increases have taken place in a wide range of non-traditional exports such as apparel, jewelry and various agricultural products. The stimulation of Peruvian exports to the United States under ATPA/ATPDEA has brought more and more companies and workers into the export sector, and improved the ability of all industries to export to more and more markets. The value of the goods Peru exported worldwide in 2007 reached \$27 billion, an 18% increase from 2006, and in 2006 reached \$23.4 billion, 36% higher than in 2005, and represented over a quarter of Peru's total GDP.

#### Government Efforts to Reduce Drug Crop Production

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¶10. (U) By early November 2007, the Peruvian National Police (PNP) Narcotics Directorate (DIRANDRO) mounted successful operations in the Upper Huallaga Valley and the VRAE (the Valley of the Apurimac and Ene Rivers), destroying over 650 cocaine-production laboratories and 1,824 metric tons (MT) of coca leaf.

¶11. (U) The PNP continued operating Basic Training Academies at Santa Lucia, Mazamari and Ayacucho Police Bases located in the two main coca source zones. In total, 1,547 CN male and female police officers graduated from PNP training academies, including 727 in March and 900 in December. The increase of DIRANDRO personnel in the source zones has contributed to sustained eradication and interdiction operations. An Advanced PNP Officers Tactical Operations Training School has been established in Santa Lucia to

enhance leadership and tactical operation skills of officers who will command newly graduated police from the NAS/PNP Basic Training Academies. Additionally, NAS/PNP Pre-Academies have been established adjacent to the Mazamari, Santa Lucia and Ayacucho bases to improve the academic preparation of local applicants for the police entrance exam.

#### Alternative Development

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¶12. (SBU) The GOP has been a strong advocate for post-eradication alternative development, taking a very public leadership role both in Peru and on the international scene. DEVIDA presented the post-eradication alternative development model at the Inter-American Drug Abuse Control Convention (CICAD) meeting in early 2008, and Peru has since been named President of the CICAD Experts Group on Alternative Development. This new role for Peru will facilitate the sharing of post-eradication alternative development experiences with other countries in the region and the world that struggle with making eradication efforts sustainable.

¶13. (SBU) For the first time in history, the GOP has dedicated significant budgetary resources specifically to counter-narcotics efforts through the Rapid Impact Plan. The Rapid Impact Plan effort is led by DEVIDA, and has resulted in increased funding for activities and infrastructure in coca-growing areas, which will be implemented by more than 15 government entities under DEVIDA's coordination. Funding in 2008's plan amounted to S/35,000,000 (12,411,348 USD), a significant portion of which is for economic infrastructure, which will directly impact market access for alternative development products.

¶14. (U) The Alternative Development program in Peru has achieved sustainable reductions in coca cultivation through an integrated approach that increases the economic competitiveness of coca-growing areas while improving local governance. The program works to change perceptions and the behaviors of coca farmers for the long term. The core of the Alternative Development program - technical assistance to farmers so that they can grow alternative crops - ensured that in FY 2007 over 30,000 family farmers received technical assistance on 48,700 hectares of licit crops, including cacao, coffee and African oil palm. In FY 2007, Alternative Development assistance to the licit economy in Alternative Development areas resulted in approximately \$5 million of additional licit sales for those organizations in districts where voluntary eradication is taking place. From 2002 to 2007, over 15,000 hectares of coca were peacefully eradicated in these communities.

¶15. (U) The post-programmed eradication alternative development program, launched in the final months of FY 2006, has made solid gains and is changing the hard-core coca-based mindset of the Tocache community in the region of San Martin. Post-programmed eradication looks to keep eradicated communities from replanting, making the programmed eradication sustainable. In FY 2007 in Tocache, 2,899 families in 48 communities signed non-replanting agreements bringing the total to 5,868 families and 87 communities in post-eradication Alternative Development. As USAID and CORAH identify future areas for expanded post-eradication alternative development, Tocache serves as an example to other communities that a viable alternative to coca cultivation does exist.

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